GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2011 Biennium

Bill #	HB0266	**Title:**	Eliminate member contribution requirements for DROP participants of MPORS
Primary Sponsor:	Hollenbaugh, Galen	**Status:**	As Introduced

Retirement Systems Affected:

- ☐ Teachers
- ☐ Public Employees
- ☐ Highway Patrol
- ☑ Police
- ☐ Sheriffs
- ☐ Firefighters
- ☐ Volunteer Firefighters
- ☐ Game Wardens
- ☐ Judges

Check the box if "Yes".

- ☐ Has this legislation been reviewed by the legislative interim committee?
- ☑ Has the cost of this legislation been calculated by the system's actuary?
- ☐ Does this legislation include full funding for any benefit revisions?

	July 1, 2008 Current System	July 1, 2008 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	$327,556,000	$331,796,000	$4,240,000
Present Value of Actuarial Assets	$212,312,000	$212,312,000	$0
Unfunded Actuarial Accrued Liability (UAAL)	$115,244,000	$119,484,000	$4,240,000
Amortization Period (years) of UAAL	18.60	21.50	2.90

	July 1, 2008	July 1, 2009	July 1, 2010	July 1, 2011	July 1, 2012
Employee Contribution Rate	9.00%	9.00%	9.00%	9.00%	9.00%
Employer Contribution Rate	14.41%	14.41%	14.41%	14.41%	14.41%
State Contribution Rate	29.37%	29.37%	29.37%	29.37%	29.37%
TOTAL Contribution Rate	52.78%	52.78%	52.78%	52.78%	52.78%

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
Other - Pensions MPORS	$0	$0	$0	$0
Revenue:				
Other - Pensions MPORS	($235,337)	($245,339)	($255,766)	($266,636)
Net Impact-General Fund Balance:	$0	$0	$0	$0

Description of fiscal impact: 19-9-1205, MCA, will be modified such that member contributions for the Municipal Police Officers' Retirement System (MPORS) will cease upon entry in to the Deferred Retirement Option Plan (DROP). State and employer contributions will continue during the member's DROP period. Member contributions for current DROP participants will cease June 30, 2009.

FISCAL ANALYSIS

Assumptions:

1. This is the only statutory amendment being considered. If other provisions are enacted, the actuarial cost impact associated with this amendment may be different.
2. Adjustments have not been made for actuarial gains or losses that may have emerged since the last valuation date, June 30, 2008, except as noted in the Technical Notes.
3. The assumed DROP election rate was increased from 33% to 66% for two reasons: First, actual DROP election rate experience appears to be greater than the 2006 assumptions. The assumption will need to be modified based on the next Experience Study. Secondly, it is reasonable to assume that the election rate for the DROP will increase if member contributions are no longer required.
4. The reported amounts are the reduced revenues in the form of contributions lost. The police retirement system revenues would be reduced on an on-going basis if the employee contributions are eliminated.
5. There are currently 19 members in the DROP. If the election rate increases to 66%, there would be 38 members in the DROP, or double the members.
6. Fiscal year 2008 salaries for the 19 members were used to find an average annual salary. This amount was grossed up to assume participation of 38 members.
7. The annual salary was assumed to increase at 4.25% per year, the Wage Growth Rate used by Milliman, MPERA's actuary.
8. The annual salary of the assumed 38 members was multiplied by 9%, the current employee rate for members that have elected GABA.
9. Fiscal year 2010 contributions lost would be $235,337. [$2,614,854 (annual salary for 38 participants)*9%]

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Fiscal Impact:				
Revenues:				
Other - Pensions MPORS	$ (235,337)	$ (245,339)	$ (255,766)	$ (266,636)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
Other - Pensions MPORS	(235,337)	(245,339)	(255,766)	(266,636)

Technical Notes:

1. This proposal does not include a provision for financing the entire cost of the proposal.
2. Normal cost increases by 1.12%.
3. It would cost an additional 2.04% of compensation to maintain the current amortization period.
4. Based on the June 30, 2008 market value of assets, the amortization period would be 24.9 years instead of 21.5 years for results with changes.
5. If the assets were adjusted at June 30, 2008 to reflect the market losses through December 31, 2008, the amortization period would be 24.9 years on an actuarial value of assets basis, and 45.2 years on a market value of assets basis.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*